

Message Text

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ACTION EUR-25/

INFO OCT-01 NEA-10 ISO-00 EURE-00 SSO-00 NSCE-00 *NRE-00

PM-07 NSC-10 SPC-0 SS-20 RSC-01 L-03 EB-11 OMB-01

TRSE-00 H-03 DODE-00 ACDA-19 SAJ-01 USIE-00 PRS-01

PA-04 CIAE-00 INR-10 NSAE-00 DRC-01 COME-00 /131 W

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O R 081813Z JAN 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 9595

INFO USMISSION NATO BRUSSELS

AMEMBASSY LONDON

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY ROME

AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY LUXEMBOURG

AMEMBASSY COPENHAGEN

AMEMBASSY PARIS

AMEMBASSY LISBON

AMEMBASSY REYKJAVIK

C O N F I D E N T I A L SECTION 01 OF 02 BONN 00352

FOR UNDER SECRETARY CASEY FROM AMBASSADOR HILLENBRAND

DEPARTMENT PASS TREASURY AND DEFENSE

E.O. 11652: GDS

TAGS: PFOR, NATO, MCAP, EFIN, GW

SUBJECT: BURDENSHARING, OFFSET AND JACKSON-NUNN AMENDMENT

REF: STATE 02402

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1. SUMMARY. THE POSSIBILITY EXISTS THAT THE GERMANS

MIGHT BE RECEPTIVE TO AN APPROACH FROM US TO COMPLETE THE OFFSET NEGOTIATIONS QUICKLY ON THE BASIS OF THE FIGURES IN REFTEL IF THE FRG WOULD ASSUME AN ADDITIONAL \$75 MILLION PER YEAR IN LOCAL SERVICING COSTS. THUS, THE TOTAL FRG-US OFFSET PACKAGE WOULD BE COMPRISED OF (ON AN ANNUAL BASIS): MILITARY PROCUREMENT, \$550 MILLION; BARRACKS REHABILITATION, TAXES AND LANDING FEES, \$125 MILLION; AND LOCAL SERVICES COSTS, \$75 MILLION.

THIS, COMBINED WITH THE ANTICIPATED CONTRIBUTIONS OF OUR OTHER ALLIES AND REDUCED INFRASTRUCTURE COSTS, WOULD LEAVE A \$300 MILLION SHORTFALL WHICH HOPEFULLY COULD BE COVERED BY REFLOW CREDITS. WE HOPE THAT WE WILL NOT BE FORCED TO ASK THE FRG TO SHIFT THE \$120 MILLION BARRACKS REHABILITATION FUNDS TO OTHER LOCAL SERVICING COSTS. IF THIS REQUEST WERE ABSOLUTELY NECESSARY, HOWEVER, IT IS OUR BEST JUDGMENT THAT THE FRG MIGHT BE INDUCED TO ACCEPT THIS SHIFT ONLY IF IT WERE CLEARLY PART OF A FINAL PACKAGE DESIGNED TO SETTLE THE OFFSET PROBLEM. END SUMMARY.

2. I AGREE THAT JACKSON-NUNN REQUIRES A CLEAR AND DEFINITE REQUEST TO OUR ALLIES FOR REIMBURSEMENT OF TROOP STATIONING COSTS. HOWEVER, SINCE THE JACKSON-NUNN DOES NOT TIE THE LEVEL OF BURDENSHARING TO US FORCE CUTS, I PRESUME THAT WE COULD TECHNICALLY SETTLE FOR THE REQUIRED LEVEL OF OFFSET EVEN IF FULL BURDENSHARING WERE NOT FORTHCOMING. THE OIL SITUATION AND THE HEAVY DEMANDS IT WILL IMPOSE ON THE BALANCE OF PAYMENTS OF OUR ALLIES WILL MAKE IT INCREASINGLY DIFFICULT, BOTH ECONOMICALLY AND POLITICALLY, FOR THEM TO UNILATERALLY TRANSFER ADDITIONAL FUNDS TO THE US UNDER BURDENSHARING ARRANGEMENTS.

3. WE RECOGNIZE THAT WHILE THE USG MAY BE FORCED TO ASK THE FRG TO SHIFT THE \$120 MILLION FROM BARRACKS REHABILITATION TO ABSORBING LOCAL COSTS, WE HOPE THIS CAN BE AVOIDED. THERE IS A STRONG CASE THAT THE FRG OFFER TO REPAIR BARRACKS BE ACCEPTED INTACT, GIVEN THE DILAPIDATED CONDITION OF BARRACKS IN WHICH MANY USAREUR TROOPS LIVE AND THE APPARENT UNLIKELYHOOD

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THAT THE CONGRESS WILL SOON BE CONVINCED OF THE NEED TO MAKE SUFFICIENT APPROPRIATIONS. WE UNDERSTAND, FOR INSTANCE, THAT USAREUR AND DOD HAVE IN PAST YEARS REQUESTED BUDGET APPROPRIATIONS FOR BARRACKS REHABILITATION, BUT THE CONGRESS DIRECTED DOD TO SEEK FRG FINANCIAL ASSISTANCE. GIVEN PAST CONGRESSIONAL DECISIONS, A BARRACKS REHABILITATION PROGRAM, FUNDED BY THE FRG, COULD BE ARGUED AS REPRESENTING AN FRG ASSUMPTION OF

LOCAL COSTS. IN ANY CASE GERMAN OFFICIALS HAVE COME TO REGARD THE BARRACKS REHABILITATION PROGRAM AS OF POLITICAL AND PSYCHOLOGICAL SIGNIFICANCE FROM BOTH THE GERMAN AND AMERICAN PUBLIC RELATIONS STANDPOINT. IN OUR BEST JUDGMENT THEY MIGHT BE INDUCED TO ACCEPT A SHIFT OF THE \$120 MILLION TO LOCAL COSTS ONLY IF IT WERE CLEARLY PART OF A FINAL PACKAGE DESIGNED TO SETTLE THE OFFSET PROBLEM. THEREFORE, IF IT IS DECIDED TO REQUEST THE FRG TO SHIFT THE BARRACKS REHABILITATION FUNDS, THIS SHOULD BE DONE IN SUCH A CONTEXT.

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4. I BELIEVE IT IS UNREALISTIC TO EXPECT THE FRG WOULD BE WILLING TO ASSUME \$275 MILLION OF THE \$400 MILLION OF BURDENSHARING THAT WE ARE SEEKING. THE GERMANS, TO DATE, HAVE BEEN UNWILLING TO IMPROVE THEIR TOTAL BURDENSHARING OFFER OF \$125 MILLION PER YEAR FOR BARRACKS REHABILITATION AND TAXES AND LANDING FEES. HOWEVER, THE POSSIBILITY EXISTS THAT THE GERMANS MIGHT BE RECEPTIVE TO AN APPROACH AT THE HIGHEST LEVELS WITH AN OFFER TO COMPLETE THE OFFSET NEGOTIATIONS QUICKLY IF THE FRG

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WOULD ASSUME AN ADDITIONAL \$75 MILLION A YEAR (OUT OF THE \$190 MILLION ADDITIONAL REQUIRED FROM NATO) IN LOCAL SERVICING COSTS. THIS ADDITIONAL \$75 MILLION, HOWEVER, IS PROBABLY THE OUTSIDE LIMIT THAT THEY MIGHT AGREE TO.

5. OUR OFFER WOULD PRESUMABLY HAVE TO INCLUDE ASSURANCE THAT THE FRG WOULD NOT BE SUBJECT TO ANY OTHER OFFSET OR BURDENSHARING DEMANDS IN A NATO CONTEXT (FOR EXAMPLE, THEY WOULD NOT BE SUBJECT TO THE DEFENSE BUDGET INCREASE SUGGESTED IN PARA 10 REFTEL). FURTHERMORE, WE WOULD STILL HAVE TO DEAL WITH FRG FEARS THAT, EVEN IF THEY DID CONCLUDE A BILATERAL OFFSET AGREEMENT WITH US, WE MIGHT STILL BE FORCED BY JACKSON-NUNN TO WITHDRAW TROOPS FROM THE FRG SHOULD OUR OTHER ALLIES NOT CONTRIBUTE A SUFFICIENT AMOUNT OF OFFSET.

6. THE PROPOSED COMPLETE US-FRG OFFSET PACKAGE ON THE BASIS OF THE FIGURES GIVEN IN THE REFTEL WOULD BE AS FOLLOWS:

ITEM	MILLIONS OF DOLLARS	
	1 YEAR	2 YEAR OFFSET
MILITARY PROCUREMENT	550	1,100
BARRACKS REHABILITATION, TAXES AND LANDING FEES (OR, ALTERNA- TIVELY, LOCAL SERVICES COSTS SHOULD THE ABOVE NOT SATISFY THE JACKSON-NUNN)	125	250
LOCAL SERVICES COSTS	75	150
TOTAL	750	1,500

THE FRG OFFSET PACKAGE, COMBINED WITH THE OTHER ANTI-CIPATED NATO CONTRIBUTIONS, WOULD STILL LEAVE A \$300 MILLION SHORTFALL WHICH HOPEFULLY CAN BE COVERED BY A REFLOW CREDIT.

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